Tennessee Board of Regents
Austin Peay State University

For the Year Ended
June 30, 1998

Arthur A. Hayes, Jr., CPA
Director

Charles K. Bridges, CPA
Assistant Director

Edward Burr, CPA
Audit Manager

Jeffrey Lafever
In-Charge Auditor

Blayne Clements
Rafael Marrero-Ruiz
Sheila Thomison
Staff Auditors

Erica V. Smith, CPA
Technical Analyst

Jane Russ
Editor

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 3, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Sal D. Rinella, President
Austin Peay State University
Clarksville, Tennessee 37044

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University, for the year ended June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/rm
98/091

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Austin Peay State University
For the Year Ended June 30, 1998

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Telephone Charges Not Reconciled
Because the Telecommunications Department did not compare long-distance charges with telephone billings, $175,000 of unbilled calls were not detected timely (page 7).

No Procedures to Determine Class Attendance*
There were no procedures to determine if Pell recipients had not begun attending some classes. Therefore, the university would not have recalculated Pell grant awards to students who failed to begin attending some of their classes (page 11).

* This finding is repeated from the prior audit.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 1998

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Board of Regents
Austin Peay State University
For the Year Ended June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated,* which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Austin Peay State University began as a two-year junior college and teacher-training institution. Created by an act of the General Assembly in 1927, the institution was named Austin Peay Normal School in honor of Governor Austin Peay. On February 4, 1943, the General Assembly changed the name to Austin Peay State College. In 1967, the State Board of Education conferred university status on the college.

The university grants the degrees of Associate of Applied Science, Associate of Science, Bachelor of Arts, Bachelor of Business Administration, Bachelor of Fine Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Science in Nursing, Master of Arts, Master of Music, Master of Arts in Education, and Education Specialist.

ORGANIZATION

The governance of Austin Peay State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. Austin Peay State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on April 16, 1998. A follow-up of the prior audit finding was conducted as part of the current audit.

The prior audit report contained a finding concerning Pell awards not being recalculated when students did not begin attending some of their classes. This finding was not resolved and is repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

October 28, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Austin Peay State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 28, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Significant numbers of unbilled long-distance calls were made and not detected promptly;
- The university had no procedure for recalculating Pell awards when students did not begin attending some of their classes.

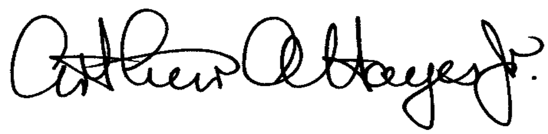
These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rm

FINDINGS AND RECOMMENDATIONS

1. <u>Significant numbers of unbilled long-distance calls were made and not detected promptly</u>

Finding

In January 1998, personnel in the University's Business Office noted that revenue from long-distance telephone usage had declined. As a result, the Telecommunications Department was asked to investigate. At approximately the same time, the Interim Director of Telephone Services noticed an increase in the number of international calls being made on campus and began to investigate. From these investigations, it became apparent long-distance calls from campus were not being recorded in the university's telephone billing system.

Further investigation revealed that beginning in February 1995, the charges for international calls exceeded the amounts the university billed to students or others for international calls. For the period February 1995 through March 1998, the university was charged approximately $175,000 more for international calls than it billed to students or others.

It appears that these losses occurred because

a. the university's long-distance carrier did not block long-distance calls that did not go through the university's telephone billing system such as 0+ calls and calls connected by directory assistance;

b. there is no way to electronically reconcile the charges from the university's long-distance carrier with the billing of students and others for long-distance calls; and

c. the Telecommunications Department did not follow the established procedure for comparing collections and billings to ensure there were no significant variances.

The Telecommunications Department has taken steps to prevent additional long-distance calls that cannot be billed. All 0+ calls have been temporarily blocked. A telecommunications company has been asked to verify the accuracy of the switch-routing programming. The dollar amount of international calls charged to the university is being compared with the dollar amount of international calls billed by the university. Also, plans are being made for new call accounting software that will permit a comparison of all long-distance calls charged to the university with calls billed by the university to others.

The Telecommunications Department and the Business Office have also taken steps to recover some portions of these lost revenues by trying to determine who placed the calls and seeking reimbursement from these individuals. In addition, they are seeking assistance from the long-distance carrier's fraud unit to identify the callers. The university has also withheld approximately $34,000 in payments to the long-distance carrier because of the improper call-blocking. However, as of October 28, 1998, these recovery attempts have largely been unsuccessful.

Recommendation

The Director of Telecommunications should continue the steps being taken to prevent additional long-distance telephone charges that cannot be billed. The Director of Telecommunications and the Vice President for Finance and Administration should continue to seek assistance from the long-distance carrier in recovering a portion of the loss.

Management's Comment

Management concurs with the findings and recommendations. In January 1998, the Business Office reported to the Vice President for Finance and Administration that revenues for long-distance resale were down, and she contracted the newly appointed Director of Telecommunications and the Internal Auditor to investigate. At that time the President was also informed, as was the Chancellor's Office of the TBR system, which is in accordance with TBR policies and procedures.

The new Director of Telecommunications had already begun to investigate because he too had noticed a large number of international calls. (In 1997, the Business Office had asked the previous Director of Telecommunications why there had been a drop in total revenues and was told that students were using their own calling cards rather than opening accounts through the University.)

The results of the internal audit and investigation revealed the following:

1) In 1995, Telephone Services introduced to the campus the ability to make international calls without going through a campus operator. Our long-distance vendor assured staff that all long-distance calls would be fed through our campus billing system, the Astra ("Astra" is the name of a turn-key call accounting system purchased from Nippon Electric Corporation.) However, there were some "holes" in the technical configuration that a few students discovered and over time passed on to other students. For example, many may have discovered the "hole" by dialing international information and then being asked by a recording if they wished to be connected automatically, hence bypassing the billing system. Out internal investi-gation revealed a loss of $175,000 that occurred over a three-year-period. The calls which cost the most were placed to commercial off-shore "party-lines."

2) There is no evidence that any staff were involved in the telephone abuse. However, by dialing 0+ the number, anyone could have placed an international call on campus without its being captured by our billing system.

3) The problem was not easily detectable. The internal control systems relied upon the Telecommunication Systems Manager to monitor the bills from our long-distance vendor and make comparisons between our billing of calls through the Astra with what we were being charged by MCI. The Astra does not have the capability of electronically reconciling the amount billed with the amount charged to students or APSU personnel. Moreover, absolute clerical reconciliation was not practical because the Astra captures in-state long-distance and out-of-state calls, but billing is separated by vendors Bell South (in-state) and MCI (out-of-state) and for different time periods. The internal control system relies on the Director of Telecommunica-tions to make at least bottom line comparisons and follow-up on changes. Evidently he was remiss in rigorously following that procedure.

4) The Business Office paid our telephone vendors upon the authorization signed by the Director of Telecommunications and Director of Computer Services. The Business Office was not then involved in the billing of students and departments but it now recognizes that it should have been more aggressive in asking Telephone Services to explain the revenue decline.

5) Also, the Vice President for Finance and Administration asked the State auditors to review Telecommunications. State Audit reviewed the timeliness of students-billing and in their '96 report noted some weaknesses which were addressed by the department.

Below are our recovery strategies and the technical and procedural steps we have taken to prevent a reoccurrence.

A. RECOVERY MEASURES

1) We secured a list of all international students and their home numbers to use as a possible match with locations and numbers called. We have found a few potential matches and compiled a list of possibilities in order to bill the students identified. This was very labor intensive.

2) Students were contacted that were likely to have placed some of the calls. Business Affairs worked individually with students to develop repayment plans. Students were initially billed for only $12,711.31. Only three students responded to corre-spondence. It is impossible to prove they actually made the calls; contested calls were dropped. Only $148 has been agreed upon from students as being balances owed.

3) There are some international programs on campus. We looked at their billings to insure that none of these calls belonged to those programs. It appears that these programs followed appropriate procedures and their departments were billed for international calls which they placed.

4) We reviewed the specification under which we selected MCI to identify liability in this matter. The specification was unclear but did state that the University is responsible for all calls placed through the campus switch. It is the position of the University that the vendor was remiss in not blocking 0+ international calls since they knew that it was our intent to capture all calls for appropriate billing.

5) We asked MCI's fraud unit to assist us in the investigation—they have a program whereby the point of call is contacted to identify the original caller. They have been reluctant to use this service. The longest calls were to 800 numbers that are similar to a 900 number and billed back against the trunk line used to place the call. This occurs in some foreign exchanges that are not subject to US laws.

6) The University has withheld $34,000 in payments to MCI for partial correction of what we believe is MCI's liability for the problem.

7) The University is working with our TBR attorney in trying to recover the loss from MCI beyond the $34,000 we have already withheld.

B. TECHNICAL MEASURES

1) We blocked all 0+ dialing from leaving our switch. This prevents people from placing a call and having it billed to the line from which it leaves campus. Unfortunately, this also prevents people from being able to make legitimate collect calls, bill to third party calls, and credit card calls where there is not an 800 number the caller can use to gain access to the calling card vendors system. Therefore, we made arrangements with MCI to activate a second T1 circuit from our campus which could be restricted to allow only credit card and third party billing. This ensures that the University is not billed for any 0+ dialed calls.

2) We checked the programming in our switch that determines which route a call uses to leave the University. This was to ensure calls are not being released to MCI without first being associated with a valid forced authorization account.

3) We had Southeastern Telecom double-check the switch routing programming and provide us with a written report confirming the programming was correct. As part of that process, Southeastern also looked for any other potential "loop holes" they were aware of that might allow long-distance calls to leave campus without the originator being charged. There are none. This ensures that our vendor who supports the switch will also assume responsibility for blocking unauthorized calls.

4) We are only entering international country codes into our switch as they are requested by users. Thus, if someone attempts to call a country we do not have activated, they will not be able to get through until they report the problem to Telephone Services and the technician enters the country code in the switch. Most of the loss occurred when the calls were place to off-shore locations that provided commercial services such as

"psychic hot-lines." Should someone find a new method of avoiding our billing system, this will reduce the probability of their being able to complete the call.

5) The University has had MCI lower the alarm notification threshold for international calls. This insures that if someone were to discover a means of going around our billing system and excessive calls begin to be made, MCI will notify the University.

C. PROCEDURAL MEASURES

1) We manually compare the dollar amount of international calls billed to us from MCI against the dollar amount of international calls we bill from our switch to be sure we are billing appropriately. Once the new AimWorx call accounting software is fully operational (see Item 6 below), we plan to compare all long-distance calls billed to us from MCI (international and domestic) against our billing records to be sure each call is being appropriately charged.

2) Telephone Services is monitoring the 800 numbers being called from campus to look for known 800 numbers that are eventually routed to a 900 number and billed back against the trunk line used to place the call. This occurs in some foreign exchanges that are not subject to US laws.

3) All international students and students who sign up for telephone services are required to sign an agreement that they are responsible for all calls which they place, and they are given an account and correct procedures for placing long-distance calls.

4) The Business Office, on a monthly basis, is comparing revenues with payments to telephone vendors.

5) The University auditor will make quarterly checks to insure procedures are followed.

6) The University is currently installing NEC AimWorx Call Accounting Software to replace the Astra software currently in use. AimWorx is a PC based package running under Windows NT rather than requiring proprietary hardware and operating software as is the case with the Astra software. AimWorx will give us a number of new and improved capabilities including features that will help us detect future problems like the International calling problem.

2. The university had no procedure for recalculating Pell awards when students did not begin attending some of their classes

Finding

As stated in the prior audit, the student financial aid office had no procedure in place to determine if Pell recipients did not begin attending some classes. The unofficial withdrawal of student financial aid recipients from all classes was monitored, however, this monitoring would not detect those who failed to begin attending a portion of their classes and would not signal the need to recalculate the Federal Pell Grant awards to those students. The Federal Student Financial Aid Handbook, chapter 4, page 64, states that "if the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if a Pell recipient has failed to begin attending some, but not all, classes could result in an overaward to some recipients. Procedures were developed for implementation in the fall of 1998.

Recommendation

The Director of Student Financial Aid should ensure the procedures developed to determine if Pell recipients begin attending all classes are implemented and continually applied. Pell awards should be recalculated whenever a student fails to begin attending any class.

Management's Comment

Management concurs with the finding and recommendation. An attendance reporting procedure was implemented beginning Fall 1998. Faculty report whether students began attendance with a FN grade (failure because they never attended) or FA grade (failure because the student has stopped attending). Students awards are recalculated as needed and if appropriate they are billed. Pell awards will continue to be recalculated and the Pell award revised as needed.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Independent Auditor’s Report

October 28, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Austin Peay State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university’s management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Austin Peay State University, as of June 30, 1998, and June 30, 1997, and the changes in fund balances and the current funds

The Honorable W. R. Snodgrass
October 28, 1998
Page Two

revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Notes 15 and 16 to the financial statements, the university implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 15, the university changed the threshold for capitalizing equipment.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 1998, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rm

Exhibit A

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Cash (Note2)	$ 3,182,261.43	$ 2,773,893.09
Investments (Note 3)	1,000,000.00	1,000,000.00
Accrued interest receivable	39,227.40	22,323.29
Accounts receivable (net of allowance of $122,614.72 at June 30, 1998, and $94,530.79 at June 30, 1997)	810,671.00	647,054.21
Inventories	171,741.70	195,678.28
Prepaid expenses and deferred charges	27,677.96	38,189.56
Total general	5,231,579.49	4,677,138.43
Auxiliary enterprises:		
Cash (Note 2)	440,391.50	414,684.34
Accounts receivable (net of allowance of $49,187.31 at June 30, 1998, and $39,265.08 at June 30, 1997)	228,676.70	230,005.15
Inventories	947,328.40	976,103.73
Other assets	34,726.68	52,392.85

LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 579,133.32	$ 521,756.96
Accrued liabilities	1,388,425.31	1,370,147.61
Student deposits	15,620.00	15,020.00
Deferred revenue	601,925.56	607,048.00
Compensated absences (Note 16)	1,086,334.48	1,030,616.28
Other liabilities	5,344.37	4,016.32
Total liabilities	3,676,783.04	3,548,605.17
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	815,444.54	684,357.21
Allocation for encumbrances	510,273.41	470,082.50
Allocation for stipulation settlement	8,789.27	37,010.48
Discretionary allocations:		
Allocation for subsequent budget	840,000.00	605,100.00
Athletic revenue contingency	45,099.33	43,549.11
Student activity fee carry forward	124,087.28	82,108.55
Technology access fee carry forward	37,901.72	-
Allocation for compensated absences (Note 16)	(1,086,334.48)	(1,030,616.28)
Unallocated	259,535.38	236,941.69
Total fund balances	1,554,796.45	1,128,533.26
Total general	5,231,579.49	4,677,138.43
Auxiliary enterprises:		
Liabilities:		
Accounts payable	11,856.37	25,069.92
Accrued liabilities	13,521.94	12,074.64
Student deposits	106,500.00	105,900.00
Deferred revenue	25,533.34	27,700.00
Long-term obligations	34,726.68	52,128.85
Compensated absences (Note 16)	43,785.54	40,298.88
Total liabilities	235,923.87	263,172.29

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997	LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	1,180,075.00	1,210,442.88
			Allocation for encumbrances	767.00	4,058.48
			Discretionary allocations:		
			Allocation for contingencies	229,782.13	235,075.30
			Allocation for compensated absences (Note 16)	(43,785.54)	(40,298.88)
			Unallocated	48,360.82	736.00
			Total fund balances	1,415,199.41	1,410,013.78
Total auxiliary enterprises	1,651,123.28	1,673,186.07	Total auxiliary enterprises	1,651,123.28	1,673,186.07
Total unrestricted	6,882,702.77	6,350,324.50	Total unrestricted	6,882,702.77	6,350,324.50
Restricted:			Restricted:		
Cash (Note 2)	1,053,832.37	914,312.63	Liabilities:		
Accrued interest receivable	18,436.73	33,035.64	Accounts payable	31,172.95	3,414.39
Accounts and grants receivable	348,983.38	379,408.52	Accrued liabilities	25,861.79	23,814.79
Prepaid expenses and deferred charges	-	1,625.00			
			Total liabilities	57,034.74	27,229.18
			Fund balances	1,364,217.74	1,301,152.61
Total restricted	1,421,252.48	1,328,381.79	Total restricted	1,421,252.48	1,328,381.79
Total current funds	$ 8,303,955.25	$ 7,678,706.29	Total current funds	$ 8,303,955.25	$ 7,678,706.29
Loan funds:			Loan funds:		
Cash (Note 2)	$ 31,942.72	$ 102,607.77	Liabilities:		
Notes receivable (net of allowance of			Accounts payable	$ 892.10	$ -
$477,403.16 at June 30, 1998, and					
$424,271.67 at June 30, 1997)	1,504,839.61	1,513,654.77	Fund balances:		
Accrued interest receivable	101,004.39	98,768.62	U.S. government grants refundable	1,278,226.69	1,364,569.66
			Institutional funds:		
			Restricted - matching	149,000.92	156,700.49
			Restricted - other	52,507.91	52,507.91
			Unrestricted	157,159.10	141,253.10
			Total fund balances	1,636,894.62	1,715,031.16

Exhibit A (Cont.)

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997	LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Total loan funds	$ 1,637,786.72	$ 1,715,031.16	Total loan funds	$ 1,637,786.72	$ 1,715,031.16
Endowment and similar funds:			Endowment and similar funds:		
Cash (Note 2)	$ 919,315.79	$ 2,285,857.44	Fund balances:		
Investments (Note 3)	2,086,647.64	513,100.00	Endowment	$ 2,349,496.64	$ 2,012,556.60
Accrued interest receivable	-	403.44	Quasi endowment - restricted	673,278.19	791,786.43
Accounts and notes receivable	16,811.40	4,982.15			
Total endowment and similar funds	$ 3,022,774.83	$ 2,804,343.03	Total endowment and similar funds	$ 3,022,774.83	$ 2,804,343.03
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Note 2)	$ 1,965,398.01	$ 1,458,442.79	Liabilities:		
LGIP deposit - capital projects	120,539.51	-	Accounts payable	$ 284.18	$ 479.00
Other assets	300.00	-			
			Fund balances:		
			Unrestricted (Note 4)	2,085,953.34	1,457,963.79
Total unexpended plant	2,086,237.52	1,458,442.79	Total unexpended plant	2,086,237.52	1,458,442.79
Renewals and replacements:			Renewals and replacements:		
Cash (Note 2)	1,851,555.32	1,720,980.21	Liabilities:		
Accounts receivable	7,971.93	3,172.08	Accounts payable	3,818.13	1,312.08
			Fund balances:		
			Unrestricted (Note 4)	1,855,709.12	1,722,840.21
Total renewals and replacements	1,859,527.25	1,724,152.29	Total renewals and replacements	1,859,527.25	1,724,152.29
Retirement of indebtedness:			Retirement of indebtedness:		
Cash (Note 2)	1,008,504.85	816,147.97	Liabilities:		
Accounts receivable	-	20,327.87	Accrued interest payable	51,131.47	54,313.35
Accrued interest receivable	6,025.27	6,764.46			
Other assets	4,000.00	4,000.00	Fund balances:		
			Unrestricted	967,398.65	792,926.95
Total retirement of indebtedness	1,018,530.12	847,240.30	Total retirement of indebtedness	1,018,530.12	847,240.30

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997	LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Investment in plant:			Investment in plant:		
Land	2,553,064.53	2,533,787.53	Liabilities:		
Buildings	48,313,776.45	48,133,787.96	TSSBA indebtedness (Note 5)	4,791,687.69	4,954,040.00
Improvements other than buildings	4,361,396.25	4,361,396.25	Notes payable (Note 5)	282,995.78	315,507.42
Equipment	12,697,710.40	13,723,666.87	Long-term obligations	78,938.70	118,369.21
Library holdings	17,707,548.00	17,454,931.00			
Livestock	19,780.00	22,972.00	Total liabilities	5,153,622.17	5,387,916.63
Construction in progress	1,526,485.58	896,290.65			
			Net investment in plant	82,026,139.04	81,738,915.63
Total investment in plant	87,179,761.21	87,126,832.26	Total investment in plant	87,179,761.21	87,126,832.26
Total plant funds	$ 92,144,056.10	$ 91,156,667.64	Total plant funds	$ 92,144,056.10	$ 91,156,667.64
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash (Note 2)	$ 429,934.54	$ 512,836.42	Accounts payable	$ 519.08	$ -
Accounts receivable	6,132.11	-	Assets held in custody for others	435,547.57	512,836.42
Total nonfoundation funds	436,066.65	512,836.42	Total nonfoundation funds	436,066.65	512,836.42
Foundation funds:			Foundation funds:		
Cash (Note 2)	454,377.51	239,831.23	Liabilities:		
Investments (Note 3)	2,726,743.35	1,551,421.66	Assets held in custody for foundation	3,245,501.05	1,847,759.55
Accrued interest receivable	21,994.22	17,375.76			
Cash value of life insurance policies	42,385.97	39,130.90			
Total foundation funds	3,245,501.05	1,847,759.55	Total foundation funds	3,245,501.05	1,847,759.55
Total agency funds	$ 3,681,567.70	$ 2,360,595.97	Total agency funds	$ 3,681,567.70	$ 2,360,595.97

The notes to the financial statements are an integral part of this statement.

Exhibit B

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	$ 41,545,561.27	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	4,595,642.60	-	-	-	-	-	-	-
Tuition and fees	-	47,667.40	-	-	-	-	-	-
State appropriations	-	726,380.00	-	-	484,312.63	-	-	-
Federal grants and contracts	-	5,476,128.24	15,720.00	-	-	-	-	-
State grants and contracts	-	834,094.56	-	-	-	-	-	-
Private gifts, grants, and contracts	-	474,315.37	-	44,567.86	40,000.00	-	-	-
Investment income	-	38,732.59	1,766.13	40,823.68	3,408.30	47,475.82	96,111.00	-
Net increase in the fair value of investments	-	-	-	189,770.98	-	-	-	-
Interest on loans receivable	-	-	37,514.33	-	-	-	-	-
Endowment income	-	248,758.78	-	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	211,102.87	-	-	-
Student debt service fees	-	-	-	-	-	-	1,117,442.39	-
Equipment use charges	-	-	-	-	-	404,274.36	-	-
Expended for plant facilities (including $1,517,485.44 charged to current fund expenditures)	-	-	-	-	-	-	-	2,448,358.22
Retirement of indebtedness	-	-	-	-	-	-	-	405,966.82
Other (Note 9)	-	76,256.68	17,505.60	-	-	-	-	39,430.51
Total revenues and other additions	46,141,203.87	7,922,333.62	72,506.06	275,162.52	738,823.80	451,750.18	1,213,553.39	2,893,755.55
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	41,077,058.08	7,721,117.06	-	-	-	-	-	-
Auxiliary enterprise expenditures	3,781,251.72	2,359.45	-	-	-	-	-	-
Indirect costs recovered	-	101,281.20	-	-	-	-	-	-
Refunded to grantors	-	17,299.92	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	52,801.29	-	-	-	-	-
Administrative and collection costs	-	-	49,769.34	-	-	-	-	-
Provision for doubtful accounts	-	-	53,131.49	-	-	-	-	-
Expended for plant facilities (including noncapitalized expenditures of $811,439.60)	-	-	-	-	1,239,944.54	502,367.84	-	-
Retirement of indebtedness	-	-	-	-	-	-	405,966.82	-
Interest on indebtedness	-	-	-	-	-	-	318,448.31	-
Disposal of plant assets	-	-	-	-	-	-	-	983,307.75
Library holding revaluation	-	-	-	-	-	-	-	200,730.65
Increase in indebtedness	-	-	-	-	-	-	-	211,102.87
Other	-	6.04	180.48	105.82	-	-	385.24	4,654.00
Total expenditures and other deductions	44,858,309.80	7,842,063.67	155,882.60	105.82	1,239,944.54	502,367.84	724,800.37	1,399,795.27

Exhibit B (Cont.)

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(525,718.68)	-	-	-	-	-	525,718.68	-
Loan fund matching grant	(5,240.00)	-	5,240.00	-	-	-	-	-
Nonmandatory:								
Endowment and similar funds	-	(17,204.82)	-	17,204.82	-	-	-	-
Unexpended plant	(137,000.00)	-	-	(152,110.29)	1,129,110.29	-	(840,000.00)	-
Renewals and replacements	(183,486.57)	-	-	-	-	183,486.57	-	-
Total transfers	(851,445.25)	(17,204.82)	5,240.00	(134,905.47)	1,129,110.29	183,486.57	(314,281.32)	-
Net increase (decrease) for the year	431,448.82	63,065.13	(78,136.54)	140,151.23	627,989.55	132,868.91	174,471.70	1,493,960.28
Fund balances at begining of year	2,538,547.04	1,301,152.61	1,715,031.16	2,804,343.03	1,457,963.79	1,722,840.21	792,926.95	81,738,915.63
Cummulative effect of change in accounting principle (Note 15)	-	-	-	78,280.57	-	-	-	(1,206,736.87)
Fund balances at begining of year as restated	2,538,547.04	1,301,152.61	1,715,031.16	2,882,623.60	1,457,963.79	1,722,840.21	792,926.95	80,532,178.76
Fund balances at end of year	$ 2,969,995.86	$ 1,364,217.74	$ 1,636,894.62	$ 3,022,774.83	$ 2,085,953.34	$ 1,855,709.12	$ 967,398.65	$ 82,026,139.04

The notes to the financial statements are an integral part of this statement.

Exhibit C

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Current fund revenues	$ 40,339,190.07	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	4,701,506.02	-	-	-	-	-	-	-
Tuiton and fees	-	47,518.95	-	-	-	-	-	-
State appropriations	-	740,898.00	-	-	766,900.72	-	-	-
Federal grants and contracts	-	4,999,785.86	10,162.00	-	-	-	-	-
State grants and contracts	-	741,269.87	-	-	-	-	-	-
Private gifts, grants, and contracts	-	629,568.10	-	27,636.70	-	-	-	-
Investment income	-	36,017.91	1,205.62	-	20,990.29	138,712.73	50,233.72	-
Interest on loans receivable	-	-	40,585.54	-	-	-	-	-
Endowment income	-	339,286.75	-	10,506.28	-	-	-	-
Reduction in doubtful accounts	-	-	11,371.78	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	24,095.77	-	1,670,000.00	-
Student debt service fees	-	-	-	-	-	-	1,086,786.65	-
Equipment use charges	-	-	-	-	-	367,829.70	-	-
Expended for plant facilities (including $1,155,320.84 charged to current fund expenditures)	-	-	-	-	-	-	-	3,764,767.29
Retirement of indebtedness	-	-	-	-	-	-	-	2,465,290.25
Library holding revaluation (Note 14)	-	-	-	-	-	-	-	8,720,066.20
Other (Note 9)	-	88,527.10	12,466.66	-	-	-	-	65,412.51
Total revenues and other additions	45,040,696.09	7,622,872.54	75,791.60	38,142.98	811,986.78	506,542.43	2,807,020.37	15,015,536.25
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	39,868,179.63	7,413,721.61	-	-	-	-	-	-
Auxiliary enterprise expenditures	3,814,879.78	4,630.08	-	-	-	-	-	-
Indirect costs recovered	-	116,552.82	-	-	-	-	-	-
Refunded to grantors	-	1,989.78	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	47,201.97	-	-	-	-	-
Administrative and collection costs	-	-	2,490.14	-	-	-	-	-
Expended for plant facilities (including noncapitalized expenditures of $1,052,944.36)	-	-	-	-	1,854,638.60	1,807,752.21	-	-
Retirement of indebtedness	-	-	-	-	-	-	2,465,290.25	-
Interest on indebtedness	-	-	-	-	-	-	339,345.31	-
Disposal of plant assets	-	-	-	-	-	-	-	1,861,280.77
Increase in indebtedness	-	-	-	-	-	-	-	1,707,370.02
Other	-	-	750.00	-	-	-	-	-
Total expenditures and other deductions	43,683,059.41	7,536,894.29	50,442.11	-	1,854,638.60	1,807,752.21	2,804,635.56	3,568,650.79

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(381,134.57)	-	-	-	-	-	381,134.57	-
Loan fund matching grant	(3,387.33)	-	3,387.33	-	-	-	-	-
Nonmandatory:								
Endowment and similar funds	-	(4,600.00)	-	4,600.00	-	-	-	-
Unexpended plant	(135,800.00)	-	-	(250,000.00)	1,246,800.00	(561,000.00)	(300,000.00)	-
Renewals and replacements	(185,878.79)	-	-	-	-	185,878.79	-	-
Total transfers	(706,200.69)	(4,600.00)	3,387.33	(245,400.00)	1,246,800.00	(375,121.21)	81,134.57	-
Net increase (decrease) for the year	651,435.99	81,378.25	28,736.82	(207,257.02)	204,148.18	(1,676,330.99)	83,519.38	11,446,885.46
Fund balances at beginning of year	1,887,111.05	1,219,774.36	1,686,294.34	3,011,600.05	1,253,815.61	3,399,171.20	709,407.57	70,292,030.17
Fund balances at end of year	$ 2,538,547.04	$ 1,301,152.61	$ 1,715,031.16	$ 2,804,343.03	$ 1,457,963.79	$ 1,722,840.21	$ 792,926.95	$ 81,738,915.63

The notes to the financial statements are an integral part of this statement.

Exhibit D

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 12,758,047.90	$ 37,800.87	$ 12,795,848.77
State appropriations	25,558,800.00	726,380.00	26,285,180.00
Federal grants and contracts	144,149.93	5,397,141.38	5,541,291.31
State grants and contracts	14,967.20	790,756.66	805,723.86
Private gifts, grants, and contracts	2,914.62	576,600.89	579,515.51
Sales and services of educational activities	2,407,578.26	-	2,407,578.26
Sales and services of auxiliary enterprises	4,595,642.60	2,359.45	4,598,002.05
Endowment income	-	192,437.26	192,437.26
Other sources	659,103.36	-	659,103.36
Total current revenues	46,141,203.87	7,723,476.51	53,864,680.38
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	20,737,149.76	343,038.36	21,080,188.12
Research	545,320.61	955,498.93	1,500,819.54
Public service	608,423.21	1,015,673.76	1,624,096.97
Academic support	3,586,543.78	76,353.69	3,662,897.47
Student services	6,723,225.33	497,737.20	7,220,962.53
Institutional support	4,303,816.45	53,882.71	4,357,699.16
Operation and maintenance of plant	3,669,730.99	2,425.96	3,672,156.95
Scholarships and fellowships	902,847.95	4,776,506.45	5,679,354.40
Total educational and general expenditures	41,077,058.08	7,721,117.06	48,798,175.14
Mandatory transfers:			
Loan fund matching grant	5,240.00	-	5,240.00
Nonmandatory transfers:			
Unexpended plant	137,000.00	-	137,000.00
Renewals and replacements	50,000.00	-	50,000.00
From auxiliary enterprises	(150,000.00)	-	(150,000.00)
Total educational and general expenditures and transfers	41,119,298.08	7,721,117.06	48,840,415.14
Auxiliary enterprises:			
Expenditures	3,781,251.72	2,359.45	3,783,611.17
Mandatory transfers:			
Principal and interest	525,718.68	-	525,718.68
Nonmandatory transfers:			
Renewals and replacements	133,486.57	-	133,486.57
To educational and general	150,000.00	-	150,000.00
Total auxiliary enterprises	4,590,456.97	2,359.45	4,592,816.42
Total expenditures and transfers	45,709,755.05	7,723,476.51	53,433,231.56
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	198,857.11	198,857.11
Refunded to grantors	-	(17,299.92)	(17,299.92)
Indirect costs recovered	-	(101,281.20)	(101,281.20)
Transfers to endowment and similar funds	-	(17,204.82)	(17,204.82)
Other deductions	-	(6.04)	(6.04)
Net increase in fund balances	$ 431,448.82	$ 63,065.13	$ 494,513.95

The notes to the financial statements are an integral part of this statement.

Exhibit E

TENNESSEE BOARD OF REGENTS
AUSTIN PEAY STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 11,623,292.76	$ 31,903.67	$ 11,655,196.43
State appropriations	25,733,300.00	740,898.00	26,474,198.00
Federal grants and contracts	110,276.62	4,891,691.32	5,001,967.94
State grants and contracts	16,589.34	720,064.37	736,653.71
Private gifts, grants, and contracts	2,103.51	809,945.14	812,048.65
Sales and services of educational activities	2,325,985.87	-	2,325,985.87
Sales and services of auxiliary enterprises	4,701,506.02	4,630.08	4,706,136.10
Endowment income	60,581.14	219,219.11	279,800.25
Other sources	467,060.83	-	467,060.83
Total current revenues	45,040,696.09	7,418,351.69	52,459,047.78
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	20,690,545.32	625,438.17	21,315,983.49
Research	531,404.26	925,813.44	1,457,217.70
Public service	598,237.43	1,027,980.74	1,626,218.17
Academic support	3,424,660.11	98,670.99	3,523,331.10
Student services	6,463,506.26	439,600.24	6,903,106.50
Institutional support	3,945,592.05	36,243.88	3,981,835.93
Operation and maintenance of plant	3,619,278.09	-	3,619,278.09
Scholarships and fellowships	594,956.11	4,259,974.15	4,854,930.26
Total educational and general expenditures	39,868,179.63	7,413,721.61	47,281,901.24
Mandatory transfers:			
Loan fund matching grant	3,387.33	-	3,387.33
Nonmandatory transfers:			
Unexpended plant	135,800.00	-	135,800.00
Renewals and replacements	50,000.00	-	50,000.00
From auxiliary enterprises	(150,000.00)	-	(150,000.00)
Total educational and general expenditures and transfers	39,907,366.96	7,413,721.61	47,321,088.57
Auxiliary enterprises:			
Expenditures	3,814,879.78	4,630.08	3,819,509.86
Mandatory transfers:			
Principal and interest	381,134.57	-	381,134.57
Nonmandatory transfers:			
Renewals and replacements	135,878.79	-	135,878.79
To educational and general	150,000.00	-	150,000.00
Total auxiliary enterprises	4,481,893.14	4,630.08	4,486,523.22
Total expenditures and transfers	44,389,260.10	7,418,351.69	51,807,611.79
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	204,520.85	204,520.85
Refunded to grantors	-	(1,989.78)	(1,989.78)
Indirect costs recovered	-	(116,552.82)	(116,552.82)
Transfers to endowment and similar funds	-	(4,600.00)	(4,600.00)
Net increase in fund balances	$ 651,435.99	$ 81,378.25	$ 732,814.24

The notes to the financial statements are an integral part of this statement.

Tennessee Board of Regents
Austin Peay State University
Notes to the Financial Statements
June 30, 1998, and June 30, 1997

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements of the university have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the university have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement, and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control for use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include housing, bookstore, food service, post office, and telephone service resale operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

LGIP Deposit–Capital Projects

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Interest during construction has not been capitalized. Library books are valued at $48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Austin Peay State University Foundation

The university is the sole beneficiary of the Austin Peay State University Foundation. This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled by the university, and the assets and liabilities of the foundation are included in the agency funds on the university's balance sheet.

NOTE 2. DEPOSITS

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the university's agent in the university's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

The university's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

NOTE 3. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The Austin Peay State University Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 2 to determine the adequacy of collateral security pledged.

The university's/foundation's investments are categorized below to indicate the level of risk assumed by the university/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university/foundation or its agent in the university's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the university's/ foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's/foundation's name.

June 30, 1998	Carrying Amount	Fair Value
Category 1:		
Corporate stocks	$ 10,829.00	$ 10,829.00
Categories 2 and 3	-	-
Investments not susceptible to credit risk categorization:		
Mutual funds	4,689,913.39	4,689,913.39
Certificates of deposit classified as investments	1,112,648.60	1,112,648.60
Total investments on the balance sheet	$ 5,813,390.99	$ 5,813,390.99

June 30, 1997	Carrying Amount	Fair Value
Category 1:		
Corporate stocks	$ 1,991.34	$ 2,789.72
Categories 2 and 3	-	-
Investments not susceptible to credit risk categorization:		
Mutual funds	1,959,222.65	2,475,603.57
Certificates of deposit classified as investments	1,103,307.67	1,103,307.67
Total investments on the balance sheet	$ 3,064,521.66	$ 3,581,700.96

NOTE 4. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1998, amounted to $250,649.67 for unexpended plant and $125,677.55 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1997, amounted to $90,693.56 for unexpended plant and $205,063.32 for renewals and replacements.

NOTE 5. NOTES PAYABLE AND TSSBA INDEBTEDNESS

The Tennessee Board of Regents, on behalf of Austin Peay State University, signed promissory notes in fiscal year 1994 in the amount of $420,977 for the purchase of the Two Rivers Apartments. The notes, payable monthly, bear an annually adjusted interest rate that will be not less than 3.5% or greater than 7.5% and are due serially to August 1, 2005. The balance owed by the university was $282,995.78 at June 30, 1998, and $315,507.42 at June 30, 1997.

The Tennessee State School Bond Authority (TSSBA) issues bonds, notes, and commercial paper to finance various capital projects at the state's colleges and universities. The amounts loaned to the university are reported on the balance sheet as TSSBA indebtedness. Details of the TSSBA indebtedness at year end are shown below:

	June 30, 1998	June 30, 1997
Bonds	$4,556,489.05	$4,929,944.23
Notes	-	24,095.77
Commercial paper	235,198.64	-
Total TSSBA indebtedness	$4,791,687.69	$4,954,040.00

The debt service requirements to maturity at June 30, 1998, for all long-term debt (both institutional and TSSBA notes and bonds) is as follows:

Year Ending June 30	Principal	Interest	Total
1999	$426,555.55	$295,156.88	$721,712.43
2000	450,803.39	273,376.55	724,179.94
2001	472,623.01	250,753.96	723,376.97
2002	380,536.92	225,947.59	606,484.51
2003	407,187.48	199,294.28	606,481.76
2004-2016	2,701,778.48	946,488.92	3,648,267.40
	$4,839,484.83	$2,191,018.18	$7,030,503.01

NOTE 6. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The rate for the year ended June 30, 1998, was 3.65% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1998, 1997, and 1996, were 456,369.75, $934,961.80, and $800,925.66. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair

Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1998, was $1,253,925.62 and for the year ended June 30, 1997, was $1,224,312.44. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 8. CHAIRS OF EXCELLENCE

The university had $6,697,976.02 on deposit at June 30, 1998, and $5,789,010.32 on deposit at June 30, 1997, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 9. OTHER ADDITIONS

Other additions on the Statement of Changes in Fund Balances for the year ended June 30, 1998, include $76,256.68 in restricted funds for cost reimbursements which exceeded current year expenditures in restricted activities; $15,906.00 in loan funds for federal reimbursement of loan cancellations; and $39,430.51 in investment in plant for a decrease in liability under terms of the food service contract.

Other additions on the Statement of Changes in Fund Balances for the year ended June 30, 1997, include $88,527.10 in restricted current funds for cost reimbursements which exceeded current year expenditures in restricted activities; $10,910.00 in loan funds for federal reimbursement of loan cancellations; and $39,430.51 in investment in plant for a decrease in liability under terms of the food service contract.

NOTE 10. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1998, the scheduled coverage for the university was $101,340,400 for buildings and $26,320,166 for contents. At June 30, 1997, the scheduled coverage was $101,094,400 for buildings and $14,953,900 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in

Tennessee Code Annotated, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $9,050,562.31 at June 30, 1998, and $8,751,049.24 at June 30, 1997.

Operating Leases - The university has entered into an operating lease for a building. The lease will probably continue to be required. Expenditures under the operating lease for real property were $1,935.48 for the year ended June 30, 1998.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled $124,073.43 for the Science Building, infrastructure improvements, the University Center addition, and Emerald Hills renovation, all of which will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 12. PLEDGES

At June 30, 1998, unrecorded pledges totaled $27,823.76 and were restricted to uses as specified by donors. The amount pledged in 1998-99 is $9,184.35, 1999-2000 is

$2,235.60, 2000-2001 is $2,235.60, and for years beyond 2000-2001 is $14,168.21. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

NOTE 13. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Gracey trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $ 67,795.91 from these funds during the year ended June 30, 1998, and $ 66,204.88 during the year ended June 30, 1997.

NOTE 14. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1997, the value of library books was increased from $20 per volume to $48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library books and other library holdings increased by $8,292,789.74 and $427,276.46, and net investment in plant, under the investment in plant fund subgroup, increased by $8,720,066.20 at June 30, 1997.

NOTE 15. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the university implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance. It was not practical to restate prior periods since all information necessary to conform to this accounting change was not available and the amounts were immaterial.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from $500 to $1,000. As a result of the change, equipment decreased by $1,206,736.87.

NOTE 16. PRIOR-YEAR RESTATEMENT

The university implemented GASB Statement 16, *Accounting for Compensated Absences.* As a result, prior-period amounts were restated as noted below:

Fund	Account	Change
Exhibit A		
Unrestricted general	Compensated absences	$ 1,030,616.28
Unrestricted general	Allocation for compensated absences	$(1,030,616.28)
Unrestricted auxiliary	Compensated absences	$ 40,298.88
Unrestricted auxiliary	Allocation for compensated absences	$ (40,298.88)
Exhibit C		
Unrestricted	Educational and general expenditures	$ (63,355.65)
Unrestricted	Auxiliary enterprise expenditures	$ 2,517.49
Unrestricted	Beginning fund balance	$(1,131,753.32)
Exhibit E		
Unrestricted	Instruction	$ (78,832.58)
Unrestricted	Research	$ 1,412.68
Unrestricted	Public service	$ (5,139.99)
Unrestricted	Academic support	$ (1,897.87)
Unrestricted	Student services	$ 1,060.44
Unrestricted	Institutional support	$ 19,627.52
Unrestricted	Operation and maintenance of plant	$ 414.15
Unrestricted	Auxiliary enterprises	$ 2,517.49

The Tennessee State School Bond Authority maintains a debt service reserve for its bonds. This amount had previously been shown in the university's retirement of indebtedness fund as deposits with trustee. During the year ended June 30, 1998, there was a change in accounting policy whereby it was decided that the reserve should be netted against the related bonds payable and the net amount shown in investment in plant as Tennessee State School Bond Authority indebtedness. In addition, the commercial paper payable and the notes payable under the BANs program were to be included in the TSSBA indebtedness. As a result of the change in accounting policy, prior-period amounts were restated as noted below:

Fund	Account	Change
Exhibit A		
Retirement of indebtedness	Deposits with trustee	$ (698,484.61)
Retirement of indebtedness	Restricted fund balance	$ (698,199.45)
Retirement of indebtedness	Unrestricted fund balance	$ (285.16)
Investment in plant	Notes payable	$ (24,095.77)
Investment in plant	Bonds payable	$ (5,628,428.84)
Investment in plant	Tennessee State School Bond Authority indebtedness	$ 4,954,040.00
Investment in plant	Net investment in plant	$ 698,484.61
Exhibit C		
Retirement of indebtedness	TSSBA debt proceeds	$ (158,822.01)
Retirement of indebtedness	Beginning fund balance	$ (539,662.60)
Investment in plant	Increase in indebtedness	$ (158,822.01)
Investment in plant	Beginning fund balance	$ 539,662.60